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House
Committee on Appropriations**

USDA RURAL DEVELOPMENT

Statement of Russell T. Davis, Administrator of the Rural Housing Service, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.

Madam Chairwoman and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year (FY) 2009 Budget for USDA Rural Development's rural housing and community facilities programs.

As an integral part of USDA Rural Development, this year the rural housing programs will assist over 40,000 new home buyers, 460,000 individuals who rent, and nearly 2,000 communities who obtain essential community facilities and equipment.

The FY 2009 Budget sets three clear priorities. First, we protect the lowest income and most vulnerable residents. Second, we continue our funding approach moving from direct loans to guaranteed loans in both single family and multifamily housing; this will assist significantly more families and cover all income ranges from very low-income through moderate income levels. Third, we are focusing on property rehabilitation and improved operating efficiency to help more families and at the same time improve the quality of the environment in which our residents live.

The proposed budget for rural housing and community facilities programs in FY 2009 supports a program level of approximately \$6.7 billion in loans, loan guarantees, grants, and technical assistance. Budget Authority requests are up by \$203.3 million.

Program Highlights

I will start with highlights from our major programs.

In FY 2009, the President's Budget proposes to increase Rental Assistance (RA) and vouchers by \$518 million to renew 82 percent of the 2009 expiring RA contracts. RA provides assistance with rent and utility expenses to very-low and low-income individuals. FY 2009 presents a particularly difficult year as we are moving RA to one-year contracts, requiring us to renew approximately 230,000 units. The Administration is committed to fully meeting this increase as protecting tenants is our number one housing priority.

This funding level will allow us to assure that tenants currently receiving RA will retain their subsidy for another year. With an average income of about \$8,500 per year, these are our most vulnerable tenants.

Across the board, our strategy is to move grant funding to loans and loan funding to guarantees. This will allow us to leverage a much greater amount of budget authority and outside private money. Community Facilities Direct Loan program funding will increase to \$302 million with a budget authority cost of \$17 million. Single Family Housing Programs funding will increase to \$4.9 billion with a budget authority cost of \$49 million.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining affordable housing for the many rural Americans who rent their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for approximately 460,000 tenant households. Of the \$997 million requested for RA, \$897 million will be used for renewals of RA contracts and \$100 million will be used for a new pilot program for RA vouchers.

Providing vouchers in a few select properties in lieu of traditional rental assistance will allow us to target the rental subsidy to the low-income tenants rather than the property owners and their projects and would begin to give us some flexibility in funding that currently is not the case with traditional rental assistance grants. In addition, this is the direction that the HUD programs have gone, and would bring consistency to all Federal housing rental assistance programs. Funding vouchers will ultimately allow RHS to combine vouchers with loan guaranteed as the way to provide this type of housing assistance in the future, more heavily relying on the private sector, and making the beneficiaries feel some ownership of the benefit. Instilling an appreciation for the benefit is also why we believe the minimum rent requirement on the vouchers is key. The 2009 Budget also proposes that recipients of the rental assistance payments and vouchers contribute a minimum of \$50 toward their monthly rent. The minimum rent and the voucher proposal are two ways in which this 2009 Budget provides a sense of ownership to the tenant beneficiary in project-based housing.

Under a successful demonstration program in 2007 we were able to provide rehabilitation and preservation for 87 properties nation-wide at a cost of less than \$30,000/unit, compared to new construction at a cost of \$150,000/unit. We have also provided 1,700 housing vouchers to tenants who may be subject to rent increases as a result of prepayment. The success of the demonstration program lends credibility to a fully-authorized permanent program, which will provide long-term portfolio sustainability and affordable housing for low-income families in rural America for years to come. The Administration strongly supports authorization of a permanent program; credibility in the market cannot be maintained on a year-to-year trial basis.

In FY 2009, funding for Section 514/516 Farm Labor Housing has been shifted to other program areas. The farm labor housing industry has encountered a number of challenges in recent years, which has led to significantly lower interest in this type of housing among developers. Issues include high development costs, an aging housing stock, shifting eligibility in tenant populations (and consequent cash-flow uncertainty for owners), and an adverse business environment in many areas. These challenges have led to hesitancy by eligible entities in pursuing new Farm Labor Housing construction.

Section 538 Guaranteed Multi-Family Housing Program

We are increasing program funding for our Section 538 Multi-Family Housing Guaranteed Program by leveraging our budget authority more efficiently. The 2009 Budget proposes eliminating guarantee fees and interest subsidies. This will allow us to increase our program level for the program from \$129 million to \$300 million with \$1.7 million in budget authority. Overall, we will be able to increase the total amount of newly constructed units which

will allow us to continue to provide affordable housing to those in need, including very-low income families. Additionally, a major strength of the Section 538 Program is that we will be able to construct new properties with less agency development costs and greater third party leveraged funds in comparison to the Section 515 Direct Rental Housing Loan Program.

The FY 2009 Budget request will fund \$300 million in Section 538 Multi-Family Housing guaranteed loans, funds that may be used for new construction and repairing 515 properties. The Section 538 Guaranteed Program continues to experience ever-increasing demand and brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry as a viable conduit to facilitate the financing of housing projects in rural areas.

In FY 2007, we distributed more than \$90 million in guarantees to fund properties that attracted approximately \$400 million in other sources of funds. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 30 percent. We also have a delinquency rate of approximately 5 percent. Approximately 95 percent of the applications were awarded Low-Income Housing Tax Credits from the various State governments where the projects were located. This type of leveraging helps ensure that properties are affordable for low-income families.

Since inception of the program, the Section 538 Guaranteed Program has issued approximately 170 guarantees totaling over \$250 million. These USDA Rural Development loan guarantees will provide over 8,000 affordable rural rental units. In addition, the program has

more than 150 applications under consideration that will provide an additional 6,410 units of housing for rural residents.

Single Family Housing Programs

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the \$4.9 billion in program level requested for the SFH programs in FY 2009, \$4.8 billion will be available as loan guarantees of private sector loans. No funding is requested for direct loans, but our commitment to serving those most in need in rural areas remains strong. Program level funding in FY 2009 for the Single Family Housing program will provide homeownership for approximately 43,000 rural families. We recently submitted legislation to authorize a demonstration program for subsidized guaranteed loans. We are examining alternatives to use the authority to serve more very low-income families; however, the FY 2009 Budget does not provide funding for this program.

Effective outreach and a quality guaranteed product, coupled with low interest rates, have increased demand for the Section 502 guaranteed program. Currently, approximately 2,000 lenders participate in the guaranteed SFH program. The competitive low-interest rate environment has enabled the rural housing program to serve low-income families, who would typically receive a Section 502 direct loan, with a guaranteed loan instead. To help decrease the Federal cost of this program, we are again requesting the authority to charge up to a 3 percent guarantee fee for purchase loans. This fee can be financed as part of the loan amount so that it

does not impose an up-front cost that some borrowers may not be able to pay. The fee for refinancing loans would remain at 0.5 percent.

Overall, our Single Family Housing programs remain strong. The volume for our guaranteed loans doubled in FY 2007 and we have been able to help fill the void left by the recent credit crunch in the financial markets. USDA Rural Development's Single Family Housing portfolio has avoided recent problems arising in the mortgage industry through responsible lending practices. By offering traditional fixed single family loans with full documentation, we will continue to help thousands of rural Americans achieve the dream of homeownership.

Community Programs

The Community Facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of \$512.4 million includes \$302.4 million for direct loans and \$210 million for loan guarantees. In partnership with local governments, State governments, and Federally-recognized Indian Tribes, the FY 2009 Budget will support more than 544 new or improved public safety facilities, 115 new and improved health care facilities, and approximately 147 new and improved educational facilities to serve rural Americans.

In FY 2007, we invested over \$92 million in 183 educational and cultural facilities serving a population totaling over 2 million rural residents, over \$148 million in 677 public

safety facilities serving a population totaling over 3.6 million rural residents, and over \$253 million in 147 health care facilities serving a population totaling over 3.8 million rural residents. Funding for these types of facilities totaled over \$485 million. The remaining balance was used for other essential community facilities such as food banks, community centers, municipal buildings, fair grounds, and homeless shelters.

Demand for the Community Facilities programs remains strong. One great success story for the program in FY 2007 was Mackinac Straits Health Systems, located in Michigan's Upper Peninsula. Built in 1953, this critical access hospital lacked adequate space and modern facilities to accommodate the changing health care needs in the area. Rural Development was able to partner with the local community to replace the existing facility with a direct loan of \$10.4 million and a guaranteed loan of \$26.8 million. With the additional assistance of \$3 million raised from a capital campaign and the contribution of the 16.5 acre site from the Sault Ste Marie Tribe of Chippewa Indians, residents of Michigan's eastern Upper Peninsula now have access to modern health care at the new 110,000 square foot critical access hospital.

Conclusion

Through our budget, and the continued commitment of President Bush, rural Americans will have programs and opportunities available to enrich their lives and improve the communities they live in. We recognize that we cannot do this alone and will continue to identify and work with partners to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing and community facility programs' efforts. I look forward to working with you in moving the FY 2009 Budget forward, and welcome your guidance as we continue our work together.